12/22/78 [2]

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Memo	Schlesinger to Pres. Carter, w/attachments 12 pp., re:OMB NLC-126-15-28-1-5 7 pp. declassed per RAC NLC-126-15-28-1-4; 6/27/13	12/11/78	A
Memo	Sanders to Pres. Carter, w/attachments 7 pp., re:Correspondence w/foreign head of state	12/20/78	A
Memo	Kraft & Miller to Pres. Carter, w/attachments 27 pp., re:Civil Service Reform	12/21/78	C
Memo	Kraft & Miller to Pres. Carter, w/attachments 10 re:TVA	12/22/78	C
Memo	Kraft & Miller to Pres. Carter, w/attachments 12 pp., re:recommendations	12/21/78	C

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THE WHITE HOUSE
WASHINGTON

12/22/78

Jim McIntyre
Charlie Schultze
Stu Eizenstat
The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

cc: The Vice President'
Frank Moore
Jerry Rafshoon

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FOR ACTION	FYI	
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		LIPSHUTZ
	X	MOORE
		POWELL
	/	RAFSHOON
		WATSON
		WEXLER
		BRZEZINSKI
X		MCINTYRE
X		SCHULTZE
		ADAMS
		ANDRUS
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		STRAUSS
		VANCE

		ARONSON
		BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

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THE WHITE HOUSE
WASHINGTON

12/21/78

Mr. President:

Stu strongly concurs with OMB and CEA. The interest rate projection "is precisely the opposite of budget 'gimmickry.'" Treasury would require OMB to budget FY 1980 interest costs "not on the basis of our rough estimate of what those costs will actually be but rather on the purely arbitrary assumption (contrary to all economic forecasts) that the interest rate... will remain unchanged over the next two years."

Stu disagrees that OMB's decision would be "destabilizing" for financial markets. "The consensus in private forecasting and financial circles is that interest rates will decline over the next two years. These groups would find it difficult to criticize a projection of interest rates consistent with their own publicly expressed views..."

If you would like Chairman Miller's opinion, Stu suggests that you call the Vice President, who has discussed this issue with Miller.

Stu concludes: "We should not expect OMB and the agencies to make $2 billion in further budget cuts to accomodate an excessively high estimate for interest costs based on an arbitrary interest rate assumption."

---Rick

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Be prepared to defend early and publicly
J

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. McINTYRE, JR. Jim
CHARLES SCHULTZE CLS

SUBJECT: Projections of Interest Rates for the 1980 Budget

For the 1980 budget, OMB proposes to base its estimates of interest costs upon a projected decline in interest rates consistent with the projected decline in the rate of inflation.

This would be a departure from past budgets where we have simply projected a continuation of market interest rates for several years at the levels prevailing at the time the estimates are made. We have, however, projected interest rate changes in out-years--for instance, in 1982-1983 in last year's budget--so the proposed procedure is not without precedent.

We are not proposing to make an independent forecast of interest rates. That would pose major problems. The old approach used a mechanical formula, "interest rates will not change." The new approach also uses a mechanical formula, "interest rates, adjusted for inflation, will not change." It is a more realistic formula, but not an explicit forecast.

Both CEA and the Domestic Policy Staff agree with this approach; Treasury disagrees.

There are several reasons why we propose to use rates in the 1980 budget that are projected to change:

- Rates are likely to be at or near their peak now. We will be projecting a decline in the rate of inflation in 1979 and 1980, consistent with the Administration's anti-inflation program. A continuation of current rates would be inconsistent with these inflation rates and would imply unrealistically high "real" interest rates by the end of 1980.

- Projected outlays in 1980 would be increased substantially--by $2.2 billion according to latest calculations--if we assumed continuation of current rates. This would require offsetting reductions to stay within the proposed deficit target.

- The congressional estimate of interest outlays will be based on such a projection of interest rates, regardless of how the Administration estimates are made. Thus, if the Administration assumes continuation for the next 18 months of the unusually high rates expected to prevail at the end of this year, our estimate of 1980 interest outlays is likely to exceed the congressional estimate--and by a significant amount. This would make it easier for the Congress to add to the program levels proposed by the Administration while remaining within our proposed outlay total and deficit target.

- Finally, using higher interest rates would create an expected shortfall of interest outlays below our published estimates in the 1979 and 1980 budgets.

We do not believe that projecting interest rates through this revised formula will have any appreciable effect on market interest rates or that it will be misconstrued as an attempt to influence the independent Federal Reserve. The press will be eagerly searching through the budget to find "gimmicks," and thus change may pose some problem. But we do not think it will be a serious problem because the projected decline in interest rates is rigidly linked to our projected decline in the rate of inflation. We believe it will be seen as an attempt to achieve consistency in the budget's economic assumptions and to improve the realism and accuracy of the interest outlay estimates. Since the Budget Committees, in particular, project interest rates, it seems certain that they would not criticize this approach.

For all of these reasons, we strongly recommend that your 1980 budget estimate interest costs by using a projection of interest rates on the basis of the formula described above.

[✓] Agree

[ ] Disagree

[ ] Other

J

BLUMENTHAL MEMO

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

December 18, 1978

MEMORANDUM FOR THE PRESIDENT

Subject: Interest Costs in the Budget

An important issue in both the estimation and the presentation of the Budget for Fiscal Year 1980 is the way in which we treat prospective costs of interest on the public debt.

Traditionally, our budget projections have assumed that market interest rates would remain at the levels existing at the time budget estimates are made. This convention is noted in the Budget document, and the specific level of short-term interest rates assumed in budget calculations are published.

Though of course arbitrary, this convention has three important advantages.

- It avoids the vagaries of predicting interest rates, which are nearly impossible to forecast accurately;
- It protects the interest cost item in the budget from manipulation and gimmickry;
- It precludes the adverse financial market reactions likely to attend any Administration "prediction" of interest rates.

OMB now plans to desert this convention for FY 1980, and to use -- and publish -- actual interest rate forecasts, presumably based on the general economic forecasts used in calculating budget receipts and other budget outlays.

This change in accounting practice would reduce FY 1980 Federal interest costs some $1-1/4 billion to $2-1/2 billion below what one would get from a calculation based on a continuation of current interest rate levels.

I oppose changing the established practice.

Changing our practice at this juncture would immediately be interpreted as budget "gimmickry". It would cast serious doubts upon the sincerity of the Administration's commitment to fiscal austerity, while creating suspicion that there has been resort to widespread use of gimmicks to stay within prescribed budget limits. It would establish an undesirable precedent for publishing forecasts of interest rates. This will prove a millstone in some future periods when we expect interest rates to rise, rather than decline. Moreover, it will be construed as an Administration effort to influence the future course of Federal Reserve policies, which could be highly destabilizing for the financial and dollar markets. Finally, our economic forecasting record is simply not good enough to undertake publication of our projections in this area.

The Congress does forecast interest rates in its budget process, but they do not have our immediate problems of avoiding all appearance of gimmickry and of eschewing attempts to influence Federal Reserve policy.

I urge you to reject this change in accounting practices.

Mike

W. Michael Blumenthal

ID 786318

THE WHITE HOUSE

WASHINGTON

DATE: 19 DEC 78

FOR ACTION: JIM MCINTYRE | CHARLES SCHULTZE

INFO ONLY: STU EIZENSTAT | FRANK MOORE (LES FRANCIS)

JODY POWELL | JERRY RAFSHOON

ALFRED KAHN

SUBJECT: BLUMENTHAL MEMO RE INTEREST COSTS IN THE BUDGET

++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM THURSDAY 21 DEC 78 +

++

ACTION REQUESTED:

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

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		JORDAN
	/	EIZENSTAT
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		LIPSHUTZ
	/	MOORE
	/	POWELL
	/	RAFSHOON
		WATSON
		WEXLER
		BRZEZINSKI
/		MCINTYRE
/		SCHULTZE
		ADAMS
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		HARRIS
		KREPS
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		FALLOWS
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		HARDEN
		HUTCHESON
		LINDER
		MARTIN
		MOE
		PETERSON
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		SANDERS
		VOORDE
		WARREN
		WISE
/		KAHN

THE WHITE HOUSE

WASHINGTON

December 21, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Interest Costs in the FY 1980 Budget

OMB has decided to calculate the interest outlays the U.S. Government will make on the public debt in FY 1980 on the basis of an interest rate projection that is consistent with the overall CEA/OMB/Treasury economic forecast. I fully support this decision -- it represents eminently sound budget and economic policy; it is precisely the opposite of budget "gimmickry". I strongly oppose the Treasury recommendation that you require OMB to budget our FY 1980 interest costs not on the basis of our rough estimate of what those costs will actually be but rather on the purely arbitrary assumption (contrary to all current economic forecasts) that the interest rate in effect later this month when the budget is "locked up" will remain unchanged over the next two years.

1. Probably the most basic principle of sound budgeting requires that all budget accounts be estimated in accordance with a single set of consistent economic assumptions. As of the FY 1979 budget, interest costs are the only major exception to this rule. The OMB decision to base the interest account on an interest rate projection consistent with our other economic assumptions is completely in accord with good budget practice and your desire to publish as accurate an estimate of our outlays and receipts as possible.

2. The practice of treating the interest account as an exception to the basic budgeting rule has been rejected by Congress and the Congressional Budget Office. Reversal of the OMB decision would not lower the budget deficit but only encourage Congress to substitute programmatic spending of its own choosing for what it would view as an excessive estimate of government interest costs. Therefore, the OMB proposal is completely consistent with the past and current Congressional Budget Office practice.

3. The Treasury memo points out that the OMB decision would increase estimated interest costs in years where rising interest rates were expected. I do not regard that as a drawback to the OMB decision but rather as a both correct and desirable practice -- when we expect interest rates to rise during an upcoming fiscal year, we should project higher interest costs because we will end up paying those interest costs anyway; closing our eyes and pretending that interest rates will remain unchanged is bad budget and economic policy.

4. It is not as if our interest rate assumptions were a secret in any case -- careful financial and economic analysts can make an informed estimate of our interest rate assumptions from our forecasts of other economic variables such as inflation and economic growth. In fact, our forecast of declining inflation for 1979 and 1980 directly implies a forecast of declining short term interest rates as well, unless the Fed were to respond to lower inflation with higher interest rates. Accordingly, public knowledge of our interest rate assumptions does <u>not</u> depend on whether or not we publish these forecasts in the budget. In short, our interest rate assumptions are a fundamental part of our economic forecasts; these assumptions are largely apparent to good financial and economic analysts in any case; there simply is no good economic or budget policy reason not to forthrightly include them in the budget.

5. Treasury makes the argument that the OMB decision could be construed as an Administration attempt to influence the Fed and could even be "highly destabilizing" for the financial and dollar markets. I simply do not find this charge to be reasonable or persuasive. The consensus in private forecasting and financial circles is that interest rates will decline over the next two years. These groups would find it difficult to criticize a projection of interest rates consistent with their own publicly expressed views, let alone be "destabilized" by such an Administration forecast. As for the Fed, it has never felt obligated to use monetary policy in order to make any Administration's forecasts of economic and housing activity (or unpublished interest rate assumptions) turn out to be "right". It is hard to imagine that informed circles would view the publication of interest rate projections as a form of serious pressure on the Fed.

6. Finally, OMB has been using a projection of estimated interest costs for the interest account throughout the budget process. A decision to abandon that approach now would increase interest outlays by approximately $2.2 billion over current estimates.

Because we will not, as in previous years, be able to simply publish a higher deficit figure if you accept the Treasury recommendation, such a decision would require additional programmatic cuts. These cuts, coming at a time when we have practically completed the budget appeals and are at the end of the budget process, would wreak havoc on the careful balancing of budget priorities that we all have been working so hard to achieve over the past several months.

We should not expect OMB and the agencies to make $2 billion in further budget cuts to accommodate an excessively high estimate for interest costs based on an arbitrary interest rate assumption which does not in itself represent sound budget or economic policy.

THE WHITE HOUSE
WASHINGTON

12/22/78

Frank Moore

The attached was returned in the President's outbox today and is forwarded to you for your information.

Rick Hutcheson

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		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
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	EYES ONLY

done
J

THE WHITE HOUSE

WASHINGTON

December 22, 1978

CONGRESSIONAL TELEPHONE CALL

TO:	Representative Lud Ashley (D., Ohio)
DATE:	Before December 27, 1978
RECOMMENDED BY:	Frank Moore F.M. Bill Cable
PURPOSE:	To talk with Rep. Ashley before he leaves for China on December 27.
BACKGROUND:	Rep. Ashley will be in China on January 1, when diplomatic relations are formally established with the People's Republic. He will be the highest ranking public official in the delegation from the United States. He would like to discuss the trip and any role he might be expected to carry out during this time.
DATE OF SUBMISSION:	December 22, 1978

SECRET

DEC 2 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM McINTYRE

SUBJECT: Strategic Petroleum Reserve

As I explained to you during our budget review meeting on November 28, we are persuaded after a full year's analysis that Federal Government storage of one billion barrels of oil is (1) not necessary to provide one billion barrels of reserve protection; (2) not justified economically, given the probability of severe or worst case supply interruptions; and (3) not achievable by 1985.

In its FY 1980 budget request, the Department of Energy has requested funding in FY 1979 and FY 1980 for development of the last 250 mmb increment of a billion barrel strategic petroleum reserve. The Department estimates the total cost of this increment at about $6 billion (on a base of over $16 billion for 750 mmb) and projects completion by 1985.

The following summarizes the principal elements of the Department's justification for completing a billion barrel system by 1985:

- The National Energy Plan established a goal of one billion barrels of storage, and this commitment should be met.
- There is a possibility of a "severe" (50 percent of OAPEC production) or "worst" case (50 to 75 percent Persian Gulf closure) supply interruption occurring. Should either of these events occur, U. S. import shortfalls could be 4.6 mmb/d to 8.5 mmb/d in 1985, and the fourth 250 mmb of storage would provide needed protection.
- The benefits of the fourth 250 mmb are estimated to be as much as $65 billion if a major supply interruption occurs.

We have worked with the Department, the National Security Council and other agencies to assess major supply interruption threats, private sector endurance to petroleum cutbacks, economic benefits of the fourth 250 mmb, and alternative ways to achieve the fourth 250 mmb of protection.

SECRET

Our conclusions that DOE has overstated the need for and the value of the fourth 250 mmb of USG storage are based on the following findings:

- Shortfall will be lower. The shortfalls of U.S. petroleum imports that may result from a major supply interruption depend on U.S. import levels, OPEC/OAPEC production, IEP effectiveness and a number of other factors. DOE's estimate of shortfalls is based on unrealistically high 1985 levels of U.S. imports (12-13 mmb/d) and OPEC prodoction (45-49 mmb/d). The CIA maintains that OPEC production in 1985 is likely to fall between 33-40 mmb/d, while DOE itself views U.S. imports of 9-10 mmb/d as the most likely 1985 case.

- There will be less demand. Contrary to DOE's assumptions, macroeconomic analysis shows that U.S. petroleum consumption levels actually would decline during a supply interruption (even if the SPR were used to make up the supply shortfall) because consumers and businesses would lose confidence and because oil prices would be higher than pre-embargo levels.

- More non-storage protection exists. Contrary to DOE's assumptions, we have found that the private sector has endurance capability that can and should be relied upon in an interruption in lieu of additional government storage. Through petroleum inventories, fuel switching, power wheeling and conservation measures, utilities, refiners, distributors, and businesses have--by conservative estimate--250 million barrels worth of protection. In addition, we believe that demand can be reduced during an interruption by millions more barrels through mandatory constraints on discretionary petroleum use.

- The likely value of the fourth 250 mmb is less than its cost. The $65 billion value that DOE assigns to the fourth 250 mmb increment apparently is a statement of the potential future gross value of the stored oil in any one year, assuming 100% certainty that a severe or worst case interruption will occur in that year. Even under those unrealistic assumptions, the gross value of the fourth 250 mmb--before deducting costs--actually is only $12 billion in present value terms. Taking into account the likelihood of a disruption, a severe or worst case interruption--such as a Persian Gulf closure--needs to be 10 to 25 times more likely to happen than any agency believes to bring the net present value of the fourth 250 mmb above zero!

In addition, the very existence of an unnecessary and possibly infeasible goal (1 billion barrels) to be met in an unrealistically short time (by 1985) appears certain to defeat efforts to achieve even a 750 mmb storage level in a timely and cost-effective manner. The Department will fall 72% short of its revised goal of 250 mmb stored by the end of this year. DOE facility cost estimates for the first 250 mmb have been increasing at a rate of more than $40 million per month for the past year, on a base of $400 million; total overruns are now 165%.

Alternatives

The size and timing of the SPR needs to be decided in time for the FY 1980 Budget to reflect your decision. The following alternatives are available:

(1) Expand SPR program to one billion barrels by 1985. (DOE request)

DOE would initiate construction of additional facilities for the fourth 250 mmb. The effort would aim at meeting a 1985 schedule.

(2) Restate the Administration's goal as one billion barrels worth of protection, including 750 mmb of USG storage completed on a realistic schedule. Recognize that the private sector has at least 250 mmb worth of endurance to supply cutbacks (storage, fuel switching, power wheeling) and count this endurance toward the one billion barrel goal. (OMB recommendation)

Under this option, the Government periodically would assess private sector endurance. DOE would concentrate on completing the 750 mmb and ensuring that its regulations encourage private sector endurance.

(3) Establish a goal of 750 mmb of USG-owned storage; complete the 750 mmb system on a realistic schedule.

Under this option, DOE simply would complete the 750 mmb system and the Administration goal would be reduced to 750 mmb.

cc: Official file--SSD
DO Records
DO Chron
Deputy Director
Mr. Cutter
Mr. Cutler
Mr. Loweth
Mr. Glozer

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AD/NRES:ERCutler/KGlozer:dmd 12/2/78

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CONFIDENTIAL

December 11, 1978

The Secretary

MEMORANDUM FOR THE PRESIDENT

FROM: James R. Schlesinger JRS

SUBJECT: OMB's Recommendation to Reduce SPR Goal

The Office of Management and Budget has urged you to decide now to reduce the ultimate objective for the strategic petroleum reserve below the one billion barrels authorized by Congress in 1975. A figleaf is placed over the 25% reduction through redefinition -- by treating 250 barrels of civilian-held stocks "as if" they were part of a billion barrel reserve. The decision to fulfill the billion barrel authorization was made by you early in 1977 and has been confirmed by you on two occasions since the initial decision. I see no reason to alter it now -- particularly through a public announcement. Since your original decision, conditions have only grown worse. Prospective imports for 1985 will be higher than projected in the NEP. Supplies worldwide will be lower. There will be little, if any, spare capacity worldwide in 1985.

In 1985 oil imports of the United States will be approaching four billion barrels annually. By the criteria employed in determining the Strategic Materials Stockpile* -- which you endorsed in September 1977 -- the petroleum reserve should also be roughly four billion barrels. Given the costs no one has suggested going to that level, but those criteria hardly suggest a further shortfall through a reduction now of the far more modest target agreed upon by the President and the Congress.

~ 11 mb/d

← not true

It is not terribly difficult to envisage the total closure of the Persian Gulf for a year -- or longer. Even briefer periods of closure would have a devastating impact on world supplies of oil. And the underlying problem is that we would never know in advance

*"the United States aims toward achieving a sufficient stockpile . . . to permit it to meet its defense and austere civilian needs during a one-front, one-year war in Europe without prior industrial or military mobilization."

CONFIDENTIAL

how long such a cut-off might last.

Given U. S. obligations under the International Energy Program, the shortfall in U. S. imports could run as high as six million barrels a day from a serious supply interruption. The OMB plan would be to achieve demand restraint of 10 percent or two million barrels a day, and to draw down the strategic petroleum reserve by two million barrels a day (so that it would be exhausted at the end of one year). How to compensate for the final two million barrels a day shortfall under such conditions remains unclear. The consequence, recognized by all parties, would be a significant decline in gross national product. Yet, the purpose of the strategic petroleum reserve among other things is to provide insurance against such a decline. OMB reasons that economic activity would decline in any event -- due to reduced consumer confidence and higher prices for petroleum -- so that there would be somewhat reduced demand for oil.

To base our policies on the twin premises that substantial declines of economic activity will be tolerated and that the American people and government will be satisfied with an uncompensated reduction in imports of up to four million barrels a day will surely lead our partners in the IEA to question whether the United States is prepared to live up to her stated commitments.

To reach its conclusions OMB employs a methodology which can most charitably be described as "puzzling". It rests on the principle that the size of this insurance premium or investment should be based on the probability of use (which is claimed to be less than one percent). This is a rather odd notion -- not applied to other government programs. By analogy it suggests that the amount of fire insurance should be based, not on the prospective value that might be lost, but on the probability of a fire striking one's home. This is clearly unacceptable. If it were applied to our nuclear deterrent posture, for example, it would suggest that our strategic forces are valueless -- unless they are employed. From the first, one guideline for the strategic petroleum reserve has been a recognition that there is something called deterrence -- that the reduction of our vulnerability would also presumably reduce the likelihood of an attempt to exploit that vulnerability. Simultaneously, the SPR would reduce the prospective costs of a supply interruption, should such an attempt occur.

The OMB suggests that demand restraint of ten percent can be achieved. I find that plausible -- under certain circumstances. But it rests upon the premise that economic activity can and should decline. In the case of an embargo -- without a continuing political-military confrontation -- this may be an acceptable position. In 1973-74 demand restraint was achieved by, among other things, reducing DOD consumption -- by reducing training hours for fighters and bombers and steaming hours for Navy ships, and standing down a substantial number of air defense aircraft and military airlift aircraft. I would hope that this would not be our intent under those conditions that might lead to the closure of the Persian Gulf. Obviously under such circumstances DOD activities -- and other activities -- would have to rise significantly.

The OMB study makes a great to-do about the "cost" of the final 250 million barrels. Although these are expenditures, they are not "costs". The oil itself represents an investment that will steadily be rising in value -- even according to OMB's own figures. The only true "costs" are associated with storage facilities and that represents about 900 million dollars.

Moreover, according to OMB's own figures, in the worst case (of a zero probability use) the difference between net present value and what the OMB paper describes as "cost" is only 1.3 billion dollars. Even if one were to accept the OMB methodology, that does not strike me as an excessive insurance premium against the potential decline of GNP of 60 billion dollars or more under the conditions envisaged -- not to speak of the advantages both of enhanced deterrence and of the perception of a firm U. S. energy policy.

A decision can, of course, be slipped, and the final date of reaching the billion barrel objective deferred. But it is OMB's goal to get the President immediately and publicly to indicate reduction of the one billion barrel objective.

Mr. President, the Middle East is inherently volatile and presently in turmoil. The Shah is shaky on his throne. Iran's production is down sharply. The States of the Lower Gulf are deeply troubled. The ultimate results of Camp David remain a question mark. It seems to me, Mr. President, an inopportune time for the United States publicly to announce that we have become less interested in protection.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

Susan hold for 12/21 mtg J

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MEMORANDUM FOR: THE PRESIDENT

FROM: Jim McIntyre Jim

SUBJECT: Strategic Petroleum Reserve

I understand that you have on your desk the NSC memorandum on this issue and a submission from Secretary Schlesinger (neither of which I have seen), along with my earlier memorandum to you.

I would urge that you not make your decision on this matter until after your Department of Energy appeal session on the 21st of this month. I think the discussion on the SPR issues that we intend to have at that time will provide you with some important information and thinking on the subject, and we will have a better idea then of the Congressional interest.

In addition, you should know that the issue is not moot for FY 80 and FY 81; the Secretary told us last Friday that he will be asking for an FY 80 supplemental for the fourth 250 MMB. We estimate the request will be in the neighborhood of $750 million.

THE WHITE HOUSE
WASHINGTON

12/22/78

Anne Wexler

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Rick Hutcheson

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		MCINTYRE
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		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARONSON
		BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

THE WHITE HOUSE

WASHINGTON

Draft to note him
J

December 22, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER Anne

SUBJECT: Governor Alf Landon - China Recognition

As early as 1953 or 1954 Governor Landon urged the United States to recognize Mainland China. He has continued to talk about it over the years and to urge the United States to have full diplomatic relations.

Because of current criticism on the Hill and the potential adverse campaign developing on your actions on China, I would recommend that you call Governor Landon asking his reaction to your recent decision and his advice on how we should proceed. We can work out the subsequent press attention to this after the call has been made. Friends of Governor Landon had assured us that he would be willing to talk to the press after you call him.

I will check with Jody in Plains about your decision on this.

cc: Frank Moore
Jody Powell

Merry Christmas!

THE WHITE HOUSE
WASHINGTON

12/22/78

Stu Eizenstat
Jack Watson

The attached was returned in the President's outbox today and is forwarded to you for your information.

The original is being hand delivered.

Rick Hutcheson

THE WHITE HOUSE

WASHINGTON

Mr. President:

Eizenstat and Watson concur with the attached text.

Rick/Bill

THE WHITE HOUSE

WASHINGTON

December 4 , 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Jerry Rafshoon JR

SUBJECT: Proposed Note to Ray Marshall

Attached is a New York Times article on Ray Marshall's efforts to improve the management of the CETA program and a proposed note from you to Ray. The note would reinforce Ray and his people, encourage other members of the Cabinet to initiate similar efforts in their Departments and might have some public value.

THE WHITE HOUSE

WASHINGTON

December 22, 1978

To Secretary Ray Marshall

I congratulate you on your continuing efforts to improve the management of the CETA program. At a time of budget stringency it is particularly crucial to make management improvements in this and other programs to eliminate fraud and waste so that all tax dollars go to help those they are intended to help. You can count on my full support in this effort whenever necessary.

Sincerely,

Jimmy Carter

The Honorable Ray Marshall
Secretary of Labor
Washington, D.C. 20213

THE WHITE HOUSE
WASHINGTON

12/19

Revised text being sent
by Bill Spring.

12/20
[illegible]

ID 786058 THE WHITE HOUSE

WASHINGTON

DATE: 04 DEC 78

FOR ACTION:

Hold Eizenstat getting Rafshoon to revise

INFO ONLY: STU EIZENSTAT JACK WATSON - concur

Bill - see if Jerry has dropped the idea

R

SUBJECT: RAFSHOON MEMO RE PROPOSED NOTE TO RAY MARSHALL RE ARTICLE IN THE NEW YORK TIMES

Spang + greg?

12/18 They still want it to go to Pres. - lP w/ Lindy retyping

++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

Labor Dept. Revising Public Jobs Programs After Abuse Is Found

By PHILIP SHABECOFF

Special to The New York Times

WASHINGTON, Nov. 24 — Secretary of Labor Ray Marshall, believing that mismanagement, inefficiency and indifference are threatening the longterm credibility of the Government's public jobs programs, is undertaking major revisions in the Labor Department's Employment and Training Administration, aides say.

The aides said that ineffective, slipshod and complacent Federal management was contributing to fraud and abuse in the jobs programs around the country.

Secretary Marshall has already replaced a deputy director of the employment administration, which operates programs authorized by the Comprehensive Employment and Training Administration to provide work and training for the unemployed. New regional administrators were recently installed in New York, Boston and Atlanta.

Some Planned Changes

A thorough reorganization of the employment administration has been planned. But it has been postponed to at least next spring while the agency prepares and carries out new CETA rules.

Among the reported changes will be an emphasis on giving jobs to the poor and

Continued on Page 21, Column 3

THE NEW YORK TIMES, SATURDAY, NOVEMBER 25, 1978

Labor Department Revising Job-Training Program

Continued From Page 1

long-term unemployed and more careful monitoring and stricter accountability for management.

The aides said that the employment administration, under the leadership of Ernest G. Green, Assistant Secretary of Labor for Employment and Training, did an excellent job over the last year and a half in achieving the primary goal of public service jobs programs: creating and filling 725,000 jobs.

But they added that administrative and personnel problems, most inherited from previous Administrations, were a threat to the future financing of the big job programs because they called the effectiveness and efficiency of the programs into question.

"We have $11 billion going out under the CETA programs but some of the managers simply do not understand the programs and have no sympathy for them," said Paul H. Jensen, executive assistant to Secretary Marshall.

Referring to the public service jobs and training effort, Alfred M. Zuck, Assistant Secretary of Labor for Administration and Management, said, "Unless we can demonstrate the credibility of the programs, we run the risk of losing the programs." In large part because of ineffective management in Washington, that credibility has not yet been established, he added.

Anticipating Budget Cuts

Mr. Marshall said recently that he was determined to improve the efficiency of the jobs program management to prepare for expected budget cuts affecting the programs.

From a peak of 725,000 jobs this year, the programs are scheduled to dip to 625,000 jobs by the end of 1979. According to Government officials, Mr. Carter's budget plans could produce a cut of at least $1.5 billion from the jobs programs in the 1980 fiscal year.

Earlier this year the Labor Department organized a special office of investigations to look into allegations of fraud and abuse. Recently the department announced the formation of a fraud- and abuse-prevention program.

Now Mr. Marshall and his aides are seeking to deal with major problems involving the administration of the jobs programs within the Labor Department bureaucracy.

The Principal Target

"If there is any organization in the Labor Department that has atrophied by age and tenure, it is the Employment and Training Administration," Mr. Jensen said in an interview.

Mr. Jensen cited the following as consequences of mismanagement in the agency:

¶Frequent confrontation between state and local governments and the Federal Government over the public jobs programs.

¶Frequent adversary relationships between the Employment and Training Administration and the prime sponsors who set up the jobs and find the workers to fill them around the country.

¶Little Federal control over the direction of the jobs programs.

¶No consistency in the delivery of the programs.

In addition, Mr. Jensen said, many of the employment administration managers "would not acknowledge that fraud and abuse existed."

Agreement From Sponsors

"This attitude was communicated to the prime sponsors," he said. "Some of the sponsors said that if we didn't mention fraud it wouldn't exist."

Another problem arising out of the purported poor management was that little information was obtained about the impact and effectiveness of the program, or even what was really happening, Mr. Jensen said.

Assistant Secretary Green said, "There is going to be a real shake-up, no question about that."

A lot of changes will emerge from new rules now being drafted by the agency. One major change, Mr. Green said, will be to assure that jobs financed under CETA go to those who need them most, chiefly the poor and longterm unemployed, to younger people, members of minorities and women. "Now the bulk of the public service jobs tend to go to white males of prime working age," he said.

Higher Quality Sought

Other changes will require more careful monitoring of the programs and stricter accountability for their management. Auditing of the program has been weak, Mr. Green said. Good records were not required.

The quality of the plans submitted by sponsors for carrying out the CETA programs will have to be upgraded under the new rules, Mr. Green said. There will have to be provision for transferring workers placed in the public service jobs to work in private industry and there will haave to be more on-the-job training, he said.

Mr. Jenson added that program sponsors now have to spend too much time dealing with Washington instead of concentrating on making their programs work. In the future, he said, the managers of the public jobs effort will have to concentrate on getting technical and administrative assistance to the field and not place obstacles in the way of achieving the goal of fighting unemployment.

THE WHITE HOUSE

WASHINGTON

December 22, 1978

C

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER

SUBJECT: Weekly Mail Report (Per Your Request)

Below are statistics on Presidential and First Family:

INCOMING	WEEK ENDING 12/15	WEEK ENDING 12/22
Presidential	22,330	30,175
First Lady	5,350	6,415
Amy	410	455
Other First Family	130	135
TOTAL	28,220	37,180

BACKLOG		
Presidential	7,405	9,420
First Lady	315	780
Amy	0	0
Other	0	0
TOTAL	7,720	10,200

DISTRIBUTION OF PRESIDENTIAL MAIL ANALYZED

Agency Referrals	13%	18%
WH Correspondence	51%	49%
Unanswerable Mail	17%	20%
White House Staff	6%	4%
Greetings Requests	12%	7%
Other	1%	2%
TOTAL	100%	100%

NOT INCLUDED ABOVE		
Form Letters	0	0
Form Post Cards	1,550	8,250
Mail Addressed to White House Staff	15,738	18,757

cc: Senior Staff

MAJOR ISSUES IN
CURRENT PRESIDENTIAL ADULT MAIL
Week Ending 12/22/78

ISSUES	PRO	CON	COMMENT ONLY	NUMBER LETTERS
Support for Recognition of People's Republic of China (1)	21%	77%	2%	3,753
Support for President's Position re: Middle East (2)	15%	80%	5%	851
Support for President's Program to Deal with Inflation	38%	16%	46%	569
Support for CETA Training Programs (3)	98%	2%	0	425
Support for Protection of Alaska Lands	90%	5%	5%	283
Support for U.S. Aid to End World Hunger	100%	0	0	262
Support for Reduction of Housing Budget for FY 1980	26%	74%	0	207
Support for Pardon for Patricia Hearst (4)	99%	1%	0	159
			Total	6,509

(~~See Notes Attached~~)

C

THE WHITE HOUSE

WASHINGTON

December 20, 1978

~~CONFIDENTIAL~~

TO: PRESIDENT CARTER

FROM: HAMILTON JORDAN HJ

RE: REAL WAGE INSURANCE

Landon Butler's attached memo on our Real Wage Insurance Program is worth your careful perusal.

There are a lot of signs that Treasury is backing off its support for RWI. I am sure at some point that Mike will present his concerns to you. I am not trying here to prejudge Mike's concerns (he might personally support it), but I do know that people in the Treasury are beginning to lobby their concerns here about RWI. Their efforts and concerns, if publicly known, might torpedo the chance we have for getting RWI through the Congress and could certainly prejudice the outcome. I share Landon's view that we have a substantive problem and a tremendous credibility/political problem if we appear to be backing off RWI.

Attachment

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO HAMILTON JORDAN

FROM: LANDON BUTLER

DATE: DECEMBER 20, 1978

SUBJECT: REAL WAGE INSURANCE

As the discussion at the Monday senior staff meeting confirmed, there is serious thought being given at Treasury to begin deemphasizing the Real Wage Insurance proposal. Mike and others are begining to believe that the proposal is too complex to administer, and cannot be sold to Congress; as a result, they have privately proposed that the Administration begin to hedge its bets on RWI by letting the White House take a low profile in the lobbying effort.

RWI should be deemphasized only after serious thought is given to the possible consequences. Specifically, I have two concerns:

First, RWI may yet prove to be important in the major pattern-setting wage negotiations. We should all know by know by now (after the coal and postal negotiations) that rosy predictions on the outcome of wage negotiations are almost always wrong, and the Teamster negotiations are not likely to be an exception. The Teamster membership, like miners and postal workers, must ratify any contract negotiated by the leadership. Further, Fitzsimmons has remained in power by decentralizing authority: any one of several regional officers could successfully oppose his attempt to negotiate a contract within the guidelines. Finally, our surface transportation deregulation legislation will present additional complications. In short, inevitable internal pressures will force the Teamster wage demands higher in the three and one-half months remaining before the Master Freight Agreement expires on March 31.

Under these circumstances, RWI could well emerge as the only real check on the upward pressure. For a Teamster making $20,000 per year, an additional one percent wage increase (8% rather than 7%, for example) means a $200 annual pay increase; however, if RWI passes, this same Teamster could insure himself up to $600. In early April, when it is time to make up his mind on a proposed contract, an individual Teamster may be willing to gamble on RWI.

My second concern is more general. Most labor leaders agree with Mr. Meany that the 7% wage standard is far more rigid than the price standard, but, unlike Mr. Meany, they believe that the President is trying to be fair in a very difficult situation. If the Administration's attempt to pass RWI is only half-hearted, these other labor leaders may well conclude that the proposal was simply designed to disguise the basic inequities in our overall anti-inflation program. If we fail to make a good faith attempt to pass wage insurance, our intentions may be questioned and public confidence in the program may begin to erode.

I think the issue of the priority that we assign to real wage insurance must be addressed urgently and immediately; otherwise, Treasury's doubts will inevitably show up in the press, and our options will be foreclosed.